

1 DAUFUSKIE ISLAND UTILITY COMPANY, INC.

2 DOCKET NO. 2014-346-W/S

3 Rehearing Rebuttal Testimony of John F. Guastella

4 Before the South Carolina Public Service Commission

5 Testimony Prepared: November 29, 2017

6 Hearing Date: December 6, 2017

7  
8 **Q. Please state your name and business address.**

9 A. John F. Guastella, 725 N. Highway A1A, Suite B103, Jupiter, Florida 33477.

10  
11 **Q. Did you previously submit direct and rebuttal testimony in the “primary”**  
12 **proceeding in this case?**

13 A. Yes. I provided direct testimony, rebuttal testimony, and exhibits in the primary  
14 case. I also testified before the Commission at the hearing on October 28, 2015. I  
15 have more recently provided prefiled testimony for consideration of the current  
16 proceeding following.

17  
18 **Q. Have you reviewed the direct testimonies on rehearing submitted on behalf of**  
19 **the Office of Regulatory Staff (“ORS”), and the Haig Point Club and**  
20 **Community Association, Inc., Melrose Property Owner’s Association, Inc.,**  
21 **and Bloody Point Property Owner’s Association (“Intervenors”)?**

1 A. Yes. I reviewed the testimonies of ORS's witnesses Dawn M. Hipp, Daniel F.  
2 Sullivan, and Dr. Douglas H. Carlisle as well as Intervenor's witnesses Lynn M.  
3 Lanier and Charles Loy.

4  
5 **Q. What is the focus of your rebuttal testimony?**

6 A. My direct testimony in the primary phase and now more recently in the rehearing  
7 phase of this rate case provide evidence of DIUC's costs of providing service and  
8 the rates necessary to recoup those costs. This rebuttal testimony focusses on  
9 whether the adjustments proposed by ORS's and Intervenor's witnesses are  
10 supported by evidence demonstrating the actual cost of providing service, discusses  
11 whether the adjustments are based upon recognized rate setting principles and  
12 methodology, and addresses whether ORS's and Intervenor's testimony and  
13 exhibits are consistent with South Carolina Supreme Court Opinion No. 27729,  
14 reversing and remanding Commission Order No. 2015-846.

15  
16 **Q. How have you organized our testimony?**

17 A. I will first address the positions of ORS then I will address those of the Intervenor's.

18  
19 **Q. Are there any adjustments proposed by ORS that you would accept for rate  
20 setting purposes in the context of this rehearing?**

21 A. Yes, the ORS's adjustment to include the cost of the elevated storage tank and  
22 related facilities and property taxes, as directed by the Supreme Court, are  
23 appropriate.

1

2 **Q. What are the adjustments by ORS with which you disagree?**

3 A. I disagree with the following ORS adjustments:

- 4 1. Elimination of various costs in utility plant accounts that are not  
5 related to the elevated storage tank and facilities.  
6 2. Rate case expenses.  
7 3. Management fees.  
8 4. Bad Debts.  
9 5. Depreciation Expense and Accumulated Depreciation, which will be  
10 addressed by Gary White in his rebuttal testimony.

11

12 **Q. Will you be referring to and relying upon other testimony in support of your**  
13 **positions?**

14 A. Yes. Throughout this rebuttal testimony I will refer to the testimony I have  
15 previously provided so as to avoid the need to repeat the same. I understand that  
16 the other parties have agreed this is acceptable and that they will proceed in a like  
17 manner. I would also note that in testimony I provided earlier in this rehearing  
18 phase I adopted all my previous testimony for the Commission's consideration as  
19 if it had been restated for rehearing.

20

21 **Q. Would you explain the reasons why you disagree with ORS's proposed**  
22 **adjustments to eliminate various costs in utility plant accounts that are not**  
23 **related to the elevated storage tank and facilities?**

1 A. These are the same adjustment ORS proposed in its primary case. I addressed the  
2 proposed adjustments in my first rebuttal testimony and, therefore, I will not repeat  
3 the same here. I would also note that these adjustments were included in the  
4 Settlement Agreement between ORS and the Intervenors, which the Supreme Court  
5 rejected.

6

7 **Q. Have you reviewed ORS's position as to rate case expenses?**

8 A. Yes. I reviewed the testimony and exhibits of ORS witnesses Hipp and Sullivan  
9 and studied the ORS discovery responses and other documents provided by ORS.  
10 DIUC seeks total rate case expenses of \$794,210 (\$674,210 actually incurred  
11 through September 2017, plus \$120,000 projected to complete the rehearing phase)  
12 to be amortized over three years. ORS proposes DIUC only be allowed to recover  
13 \$275,382 to be amortized over 5 years.

14

15 **Q. What is included in the \$275,382 that ORS proposes for DIUC's rate case**  
16 **expenses?**

17 A. Mr. Sullivan's testimony, Adjustment 6(a) on page 9, indicates that the \$275,382  
18 includes \$97,500 as taken from Audit Exhibit ICG-4 provided by ORS witness  
19 Ivana Gearheart in the primary case. He next includes \$177,882 for additional legal  
20 costs, bond premiums, and letter of credit fees associated with the appeal. The ORS  
21 allowance, then, is \$97,500 + \$177,882 equaling the total ORS proposed allowance  
22 \$275,882.

23

1 **Q. Ms. Hipp proposed certain adjustments to address the fees and copying costs**  
2 **that the Supreme Court awarded DIUC after DIUC filed its rehearing**  
3 **testimony. Are those adjustments acceptable to DIUC?**

4 A. DIUC can accept Adjustments 1, 2, 3, and 4 as discussed on pages 5 and 6 of Ms.  
5 Hipp's testimony. Adjustments 1, 3, and 4 address the copying costs and legal fees  
6 awarded to DIUC by the Supreme Court and remove them from rate case expenses.  
7 Adjustment 2 removes \$1,470 of unrelated legal costs. However, DIUC cannot  
8 accept ORS's proposed total rate case costs of \$275,882 because that amount fails  
9 to include any allowance for rate case expenses incurred after September 30, 2017.  
10 DIUC has estimated those costs at \$120,000. That \$275,882 amount also  
11 improperly excludes other rate case expense.  
12

13 **Q. What is DIUC's position with regard to the other rate case expenses excluded**  
14 **by ORS?**

15 A. Guastella Associates LLC ("GA") provides management, valuation and rate  
16 consulting services to water and wastewater utilities around the country, and is the  
17 contract manager of DIUC. Beyond the small percentage of GA fees included in  
18 the \$97,500 of rate case expenses proposed by ORS from the beginning of this case,  
19 ORS has allowed no recovery for the cost of Guastella Associates' work over the  
20 past two years on this rate case. Those costs as sought herein total \$542,978 and  
21 are made up of GA's monthly charges all the way back to when GA undertook the  
22 very first preparations of the rate application. The excluded amount refuses any  
23 recovery by DIUC for payment to GA for its work to complete discovery, try the

1 rate case, then file an appeal and work to get this matter back before the  
2 Commission for rehearing.

3

4 **Q. Do you have any information about ORS's position on why GA should not be**  
5 **paid these amounts?**

6 A. Yes. Ms. Hipp's testimony provides only four bullet points that the witness asserts  
7 "in general" describe the GA invoices demonstrating its costs:

8 • **ORS bullet point "Contain mathematical errors."** That is all it says –  
9 "contain mathematical errors." Ms. Hipp does not identify any specific  
10 bill(s) that contain a mathematical error.

11 • **ORS bullet point "Do not contain sufficient detail to describe the work**  
12 **performed, the specific dates and hours worked, employee name, and**  
13 **business purpose."** GA has worked for about 600 different utilities over  
14 the 55 years of Mr. Guastella's work in the industry. Throughout that time  
15 GA's monthly billing descriptions have been the same; these descriptions  
16 have been used for DIUC as well as all other GA clients and no regulatory  
17 agency has ever raised any question about the amount of detail included in  
18 the invoices. Having provided these invoices to over two dozen regulatory  
19 agencies in the hundreds of rate cases in which GA has provided consulting  
20 services, I was shocked to see this testimony by Ms. Hipp. GA's invoices  
21 provide (and always have) a summary description of the specific work  
22 performed, the hours worked by the title of the individual performing the  
23 work and the hourly rates and amounts for each, along with the total amount

1 of the bill. These invoices are routinely provided to and accepted by  
2 regulatory agencies.

3 For example, in response to discovery in the primary case, copies of  
4 GA's billings were provided to ORS, and ORS did not express any concern  
5 about their format or the information provided. ORS never asserted any  
6 complaint or criticism about the content of the invoices. After DIUC  
7 provided copies of GA bills to ORS via discovery in this rehearing phase,  
8 there was no follow up request for more detail or any concern raised about  
9 the need for more detail. Instead, without any notice ORS suddenly  
10 declared GA's invoicing insufficient.

11 There has never been a reason for GA to think the detail of its bills  
12 was a problem, not for previous billings to DIUC and not for previous  
13 billings for similar rate case work GA provided to Kiawah Island Utility as  
14 recently as the 2011 rate application by Kiawah Island Utility. In that case  
15 GA's bills were in the exact same format as these invoices for DIUC, and  
16 no issue was raised by ORS in that case.

- 17 • **ORS bullet point "Contain expenses such as air fare, lodging, and**  
18 **meals for which no detail or receipt was provided."** Once again, GA  
19 bills to DIUC are in the same format as those for all other GA clients. The  
20 travel expenses are typically detailed by date(s) of travel, whether for air  
21 fare, ground transportation, and room and board. I cannot remember a  
22 client who has ever demanded our travel invoices. Any time we travel for  
23 clients, they know the reason for the travel; in fact, we rarely travel except

1 for hearings or major case events. And again, ORS has never before asked  
2 for GA travel documents in addition to invoices for billings to DIUC or to  
3 Kiawah Island Utility when GA performed rate consulting services for that  
4 utility.

5 It is also important to note that there are only a couple of GA bills  
6 that reflect travel expenses totaling some \$5,634, including the \$4,532 for  
7 the cost of three GA employees to appear in Columbia for the rate hearing.  
8 Knowing the date of the hearing and the GA personnel in attendance, it  
9 seems logical that ORS professionals could evaluate the reasonableness of  
10 those travel expenses as reflected on the invoices billed to DIUC. As  
11 previously noted, ORS has required DIUC to supply many, many discovery  
12 responses. ORS could have simply requested additional information, rather  
13 than waiting to surprise DIUC with this “gotcha” position at rehearing.

- 14 • **ORS bullet “Do not appear to be paid by DIUC.”** Ever since 2008 when  
15 DIUC was acquired from Haig Point, Inc. there have been repeated  
16 occurrences that created major cash flow shortages in response to which  
17 the owners and GA have made it a priority to use available cash to provide  
18 service to the customers, with charges by GA accrued instead of being paid  
19 on a current basis. Delayed payments that create accounts payable do not  
20 mean that costs are not incurred and/or the costs are not allowable for rate  
21 setting purposes.

22 In summary, until this rehearing ORS has not complained about GA bills  
23 either. As previously discussed the \$97,500 was found to be unsupported by the



1 Supreme Court, but assuming that some portion of that amount represents legal fees  
 2 and another portion GA charges, ORS's current recommended allowance for GA  
 3 charges is only a small portion of the \$97,500. By eliminating all \$542,978 of GA  
 4 billings, ORS essentially would have the Commission believe that DIUC should  
 5 not recover through the rates any charges for the work GA performed.

6

7 **Q. Can you summarize the work performed by GA in conjunction with this rate**  
 8 **case?**

9 A. Yes, I will provide an enumerated list of GA's work for DIUC's rate case:

- 10 1. Preparing the original rate analysis and rate application.
- 11 2. Responding to over 150 discovery requests with multiple parts and the need  
 12 to research and prepare voluminous responses.
- 13 3. Assisting in preparing discovery to ORS and to Intervenor to attempt to  
 14 identify data and information relevant to the rate case issues.
- 15 4. Examining the testimony and exhibits of ORS and Intervenor witnesses,  
 16 and prepare rebuttal testimony and exhibits.
- 17 5. Review the ORS/POA Settlement and participate in the rate hearing.
- 18 6. Assist in the preparation of a proposed Commission rate order and reply to  
 19 ORS's and Intervenor's proposed rate order.
- 20 7. Review the Commission's rate decision and order.
- 21 8. Assist in preparing a request to the Commission for reconsideration.
- 22 9. Assist in preparing the appeal to the Supreme Court.

1           10. Work with SunTrust Bank to negotiate refinancing the defaulted line of  
2           credit, preparing financial projections to assure SunTrust of DIUC success  
3           in the appeal.

4           11. Preparing financial statements and working with agents to obtain a bond.

5           12. Assist in preparing for oral argument.

6           13. Preparing statements for possible settlement in an attempt to avoid a costly  
7           rehearing process.

8           14. Prepare direct rehearing testimony and exhibits.

9           15. Review and prepare responses to discovery by ORS and Intervenors.

10          16. Review and prepare discovery of ORS and Intervenors witnesses.

11          17. Prepare rebuttal testimony and exhibits.

12          18. For all of the above, prepare and review correspondence and participate in  
13          calls with attorneys and DIUC president and owners, SunTrust officers and  
14          bond representatives.

15          The above work represents over 2,000 hours of GA time, not counting October,  
16          November, and December 2017 billings. I estimate that about one-third of GA  
17          work and charges to DIUC are subsequent to the Commission's original rate order.  
18          DIUC did not want to incur these costs but it had no choice because the ORS/POA  
19          Settlement Agreement was not based on DIUC's known and actual costs of  
20          providing service.

21          Now, after forcing DIUC through a costly appeal, ORS seeks to deny DIUC  
22          the ability to cover its debt to GA for its work. ORS does not claim the work was  
23          not performed or needed. ORS does not claim GA is unqualified. Instead, ORS

1 for the first time asserts that “in general” it finds the invoices lacking. DIUC  
2 sought the GA work and benefitted from it by surviving and succeeding in its  
3 appeal. The services were rendered effectively to DIUC and remittance is due.

4  
5 **Q. Do you agree with ORS’s use of a 5 year amortization of the rate case expenses,**  
6 **instead of the 3 years proposed by DIUC?**

7 A. No. Using a five-year amortization ignores the history of DIUC’s rates. DIUC’s  
8 last rate case was decided in July of 2012, three years before this rate application  
9 was submitted in June of 2015. DIUC will certainly need another rate filing within  
10 3 years, or more likely two years, in order to cover the costs associated with utility  
11 plant additions that have been delayed because of an inability to obtain financing  
12 from SunTrust until this rate case is finally decided. Moreover, because the  
13 Commission has not allowed the average unamortized balances of rate case  
14 expenses in rate base, the carrying costs associated with the time value of money  
15 are not recoverable through the rates. An appropriate rate increase should have  
16 become effective in January of 2016, but the ORS-Intervenors’ Settlement  
17 Agreement followed by appeal of the Commission Order 2015-846 delayed a final  
18 decision and rate increase to January 2018 at the earliest, assuming there is no need  
19 for another appeal. If DIUC is forced to apply a 5 year amortization of rate case  
20 expenses, the actual rate case expenses would not be fully recovered until January  
21 of 2023, which is 7 years after what would have been the effective date for new  
22 rates had the rate decision in 2015 been based on evidence and reflected DIUC’s  
23 cost of providing service.

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**Q. What other issues are implicated by the 5 year amortization of rate case expenses as asserted by ORS?**

A. It will be a significant cost burden for the owners to incur a carrying cost of about \$126,820 under a 3 year amortization period of DIUC's estimated \$800,000 total rate case expenses, at a cost rate equal to an equity allowance of 9.29%. The approximate \$800,000 represents the total actual rate case cost to be incurred by DIUC. If ORS's proposed allowance of \$275,382 and 5 year amortization were to be accepted by the Commission, the unrecovered cost to DIUC would actually be about \$1.1 million (about \$500,000 of direct costs and \$600,000 of carrying costs).

**Q. Would that carrying cost impact the owner(s) of DIUC?**

A. Yes. There has never been a dividend paid to DIUC's (and formerly Haig Point Utility Company's) owners since the creation of the utility in 1985, and charges by GA for management and other consulting services have been significantly delayed over the years because the priority has continuously been to first use available cash to provide service to the customers. The policies of retroactive rate making prevent customers from being responsible for past operating deficits as well as for delayed consulting charges which will be absorbed by the owners. DIUC's response to ORS's discovery request "ORS 1-2 Stockholder Infusion," attached as Exhibit JFG-R5, is a list of cash infusions by individual owners, direct payments by owners to vendors, open accounts payable to owners and open accounts payable to manager, the total of which is \$1,128,267 representing use of cash to serve the customers when revenues from operations were insufficient.

1  
2 **Q. Do you have any further comments on the ORS position to exclude GA's**  
3 **charges of \$542,978 from rate case expenses and the lack of any allowance for**  
4 **rate case expenses incurred after September 30, 2017?**

5 A. Yes. As stated in my rebuttal testimony in the primary case, the rate proceeding  
6 for this very small utility was as extensive --and possibly more extensive-- than  
7 cases for large utilities. Much of that was driven by the discovery requests made  
8 by ORS. After ruling in December 2015, it was then necessary that DIUC, for its  
9 very survival, undertake what turned out to be a successful but very costly appeal  
10 and now rehearing proceeding. ORS's proposed rate case expense allowance that  
11 eliminates virtually all of GA's charges (\$542,978), including the entire amount  
12 being incurred to correct a Settlement Agreement entirely rejected by the Supreme  
13 Court, is beyond any reasonable regulatory standard of fairness and proper rate  
14 setting principles. Additionally, ORS's position against permitting recovery of any  
15 post-September 30, 2017, rate case costs is troubling. ORS is fully aware that  
16 following a full hearing another appeal is likely in this case. ORS is also aware that  
17 DIUC will incur more rate case costs; permitting ORS's attempt to deny DIUC the  
18 ability to recovery the costs necessary to complete this case arguably has an impact  
19 on DIUC's available litigation choices and that is unfair.

20  
21 **Q. Turning to ORS's proposal regarding GA's management fees, do you agree**  
22 **with Ms. Hipp's analysis and recommendation?**

23 A. No. Ms. Hipp recommends DIUC only recover management fees of \$132,211,  
24 which is the same amount ORS proposed in Docket No. 2011-229-WS, 6 years ago.

1 Ms. Hipp takes the same position as taken by ORS witness Gearheart in the primary  
2 case, specifically that GA's services to DIUC did not increase in years following  
3 the 2011 rate filing. Quite simply, there is no evidence to support ORS's position.  
4 Not only did DIUC rebut that position in the primary case and in DIUC's appeal to  
5 the Supreme Court, the Supreme Court found that ORS's adjustments were entirely  
6 unsupported by any evidence it presented to the Commission.  
7

8 **Q. Does Ms. Hipp provide any other purported support the ORS adjustment to**  
9 **the management fees?**

10 A. Ms. Hipp does further discuss the topic, but the additional reasons are either  
11 erroneous, contrary to the record, or without clear meaning.  
12

13 **Q. Please explain.**

14 A. Let's take Ms. Hipp's statements one at a time.  
15

16 **Q. Please begin with the issue of "checks and balances," as Ms. Hipp construes**  
17 **them.**

18 A. Certainly. Ms. Hipp first argues that the GA Management Agreement (Rehearing  
19 Exhibit DMH-4) lacks sufficient checks and balances to protect DIUC, its parent  
20 company, and its rate payers. That is simply not true. The GA Management  
21 Agreement has a specific provision, ARTICLE V. TERMINATION, under which  
22 the Clients may terminate the agreement. There is no greater check available to the

Utility – it can terminate GA pursuant to the plain language of the GA Management Agreement.

**Q. What other reason does Ms. Hipp offer for denying management fees pursuant to the GA Management Agreement with DIUC?**

A. Ms. Hipp also circles back to try to revive the ORS position that GA is somehow responsible for the sale of the Elevated Tank Site and the failure of Beaufort County to assess utility property taxes. In doing so, ORS not only completely ignores my rebuttal testimony and evidence in the primary case in which I explained the details of how tax bills and notices were sent to the wrong address and sale was posted at the wrong site, she also ignores the discussion between ORS counsel Shannon Bowyer Hudson and Justice Kaye G. Hearn at oral argument on December 14, 2016, wherein Justice Hearn stated with respect to these issues,

“How could it be right, though, with respect to the tax issues on the elevated water tank? I mean Maria Walls’ testimony was very unequivocal that that was not conveyed, plus it was not the utility’s fault that the property tax notice was sent to the wrong address.”

Clearly, the Supreme Court read and understood the record and issues. ORS’s position will not be tenable on appeal.

**Q. What else does ORS assert as grounds for denying management fees pursuant to the GA Management Agreement with DIUC?**

A. Ms. Hipp provides Rehearing Exhibit DMH-5 which attempts to compare DIUC’s management fees per customer with the management fees per customer of Harbor Island Utility (“HIU”) and Kiawah Island Utility (“KIU”). Before explaining why

1 those comparisons are meaningless, it should be noted that those other utilities are  
2 not comparable just because they both provide water and wastewater service and  
3 are regulated by this Commission. HIU only has about one-tenth of the cost of  
4 DIUC's utility assets, it has no wells, no water treatment plant, and it is accessible  
5 by roadway-bridge. KIU has no source wells, no treatment plant, and only one  
6 wastewater plant, compared to DIUC's operation of 7 wells outfitted with water  
7 treatment and pumping as well as ongoing operation by DIUC of two wastewater  
8 treatment plants. KIU has about ten times more customers than DIUC over which  
9 to spread costs. Most importantly with regard to Rehearing Exhibit DMH-5, KIU's  
10 management fees are not just the \$365,095 shown in Rehearing Exhibit DMH-5.  
11 That \$365,095 amount is the amount affiliated corporations allocate to KIU, but  
12 day-to-day management of KIU is also provided by its direct, full-time employees.  
13 Those employee costs are not included in the amount Ms. Hipp is attempting to  
14 compare.

15 Relying on Exhibit DMH-5, Ms. Hipp testifies that the cost per customer  
16 per month is about \$30 for management services for DIUC and about \$7 per month  
17 for KIU, implying, of course, that the difference has some meaning. Even if the  
18 Commission were to ignore the fact that the \$365,095 amount is significantly  
19 understated and the fact that KIU has about 10 times more customers over which  
20 to spread costs, Rehearing Exhibit DMH-5 shows that using ORS's 5 year old  
21 \$132,211 proposed allowance, the cost per customer per month is about \$25. The  
22 \$5 difference between ORS's position at \$25 and DIUC's at \$30 is hardly a  
23 meaningful difference when all factors are considered. However, ORS makes no



1 attempt to analyze the management services that GA has provided and ORS fails to  
2 consider the challenges GA has successfully met, as compared to any encountered  
3 by KIU or HIU. Ms. Hipp does not analyze or even discuss any of GA's  
4 accomplishments, nor did Ms. Gearheart. For just two examples, GA negotiated  
5 utility property tax savings of about \$450,000 by negotiating with Beaufort County  
6 to rescind the 2010 and 2011 taxes and negotiated an instalment agree to pay 2012,  
7 2013 2014 and 2015 property taxes over an 8 year period, without interest. GA  
8 also found a way to dispose of excavated soil under the failed lagoon liner at the  
9 wastewater treatment plant by constructing a helipad, saving an estimated \$400,000  
10 in capital costs, not counting the savings to the Island residents if the fire  
11 department would have had to construct the helipad itself. If we take the \$450,000  
12 of property tax saving and say roughly \$60,000 in revenue requirement for the  
13 \$400,000 of capital cost savings, spread that amount over 3 years (\$170,000),  
14 calculate the monthly savings (\$14,167) and divide by 462 customers, the savings  
15 is about \$30 per month per customer. So, GA's management success for just these  
16 2 items more than saved each customer the \$5 per month difference per customer  
17 between ORS's proposed allowance and GA's requested management fees.

18  
19 **Q. Do you have any other comments regarding Ms. Hipp's criticism of GA's**  
20 **management fees?**

21 A. Yes. I do not believe ORS has engaged in a fair analysis of the management fees  
22 issue. DIUC's direct and rebuttal testimony and exhibits in the primary case  
23 included a long list of the challenges met by GA management and significant

1 accomplishments, particularly, Hearing Exhibit 7. ORS never even mentioned  
2 them in the primary case and not even in this rehearing. Instead, ORS witness Hipp  
3 now criticizes GA by stating that GA's management does not reflect the goals set  
4 by DIUC, which include "...operate the Company efficiently and manage its assets  
5 in order to minimize the rates charged to customers...." In addition to being wrong  
6 about stating that GA's failure was the cause of the sale of the Elevated Tank Site,  
7 Ms. Hipp nor anyone else testifying on behalf of ORS even mentions the following  
8 accomplishments and the resulting significant benefits to the customers provided  
9 by GA:

- 10 • GA directed the transition for the HPUC acquisition as well as the  
11 merger of MUC, improving records, billing and operations, despite the  
12 many problems that arose during this merger of books and records.  
13
- 14 • GA managed the operations despite an immediate 25% annual shortfall  
15 of revenues because of MUC's failure to pay its share of the jointly  
16 owned wastewater treatment plant.  
17
- 18 • When the owners of MUC simply abandoned the utility operations and  
19 filed for bankruptcy, GA directed DIUC's effort to protect the MUC's  
20 customers from interruption of water and sewer service; DIUC was not  
21 compensated for this effort, despite DIUC's cash shortage.  
22
- 23 • GA undertook an extensive effort over about a three year period trying  
24 to obtain financing, including about 15 months *after* the 2012 rate  
25 increase, without which it would have been nearly impossible to  
26 continue to provide adequate service. GA's expertise in preparing  
27 qualified appraisals and rate setting were critical in obtaining approval  
28 of financing.  
29
- 30 • When there were insufficient funds to pay for temporary repairs to the  
31 failed wastewater lagoon liner, GA worked with the president of DIUC  
32 to use his contracting firm to make the emergency repairs.  
33

- 1 • GA's expertise in appraisals, valuation and condemnations were  
2 beneficial in dealing with the condemnation of the land at the storage  
3 tank site, assisting DIUC in prevailing at summary judgment.  
4
- 5 • GA saved DIUC and its customers over \$350,000 in property taxes  
6 **and another \$100,000 in present value savings** related to the 8 year  
7 payment agreement.  
8
- 9 • GA's administration and supervision of the capital improvements **saved**  
10 **DIUC and its customers as much as \$400,000 in construction costs,**  
11 as well as significant savings for the Fire Department for the  
12 construction of a helipad.  
13
- 14 • Because cash flow is always first used to operate the water and sewer  
15 systems, **the owners of DIUC have never been paid a dividend** and  
16 **GA is owed thousands of dollars in accrued payments.** Mr. Guastella  
17 explained that the past due accounts payable to GA will eventually be  
18 paid by the owners and not the customers.  
19

20 With regard to quality of GA's services, the record establishes GA's high level of  
21 performance and the increasing tasks and projects GA has mantled for DIUC year  
22 after year.  
23

24 **Q. Can you explain how GA has helped with the financial stability of DIUC in the**  
25 **past several years?**

26 A. Yes. In addition, as previously stated, GA saved the customers some \$450,000  
27 related to property taxes and capital costs of \$400,000 related to the disposal of  
28 earth at the helipad. It is important that the Commission realize ORS never refers  
29 to the infusion of cash and absorption of costs directly and indirectly by the owners  
30 and GA, which totals over \$1.1 million and which was directed through GA's  
31 management. See Exhibit JFG-R5. Also, importantly, these amounts do not include  
32 the fact that no dividend has ever been paid; no equity return has been taken so that

1 service to the customers would always be assured. It has been GA's management  
2 that has assured continued adequate service to DIUC's customers and has  
3 accomplished major cost savings. GA and the owners of DIUC that have acted at  
4 all times in the best interests of the customers.

5  
6 **Q. Do you disagree with the ORS position that the difference between the original**  
7 **application for a 108.9% rate increase and the updated revenue requirement**  
8 **should not be deferred?**

9 A. Yes. The updated revenue requirement that exceeds the original 108.9% rate  
10 increase reflects costs that result from the time for the appeal and remand process,  
11 which the Supreme Court opined should be recognized. There is also a question of  
12 whether notice requirements would prevent the higher rate increase from being  
13 implemented without further notice and delay. Accordingly, such a deferral would  
14 make DIUC whole in terms of cost recovery and also delay a portion of the rate  
15 increase to the customers at this time.

16  
17 **Q. With respect to the testimonies of Intervenor's witnesses Charles Loy and**  
18 **Lynn M. Lanier, do these witnesses assert, as they did in the initial proceeding,**  
19 **that DIUC must impute CIAC in calculating rate base or, as an alternative,**  
20 **adjust utility plant as not used and useful?**

21 A. Yes, both arguments are based on essentially the same inappropriate reasons as in  
22 their testimony in the primary case.

23

1 **Q. Have you previously addressed these issues in your rebuttal testimony in the**  
2 **primary case?**

3 A. Yes. DIUC also addresses these issues in DIUC's Responses to Interrogatories of  
4 HPCCA, MPOA, and BPPOA dated October 27, 2017. A copy of the Responses  
5 is attached hereto as Exhibit JFG-R6 and incorporated into my testimony as if  
6 restates herein. These Responses also include information that supports DIUC's  
7 position as to bad debts. I would like the Commission to know I rely on the  
8 Responses for that issue as well.

9  
10 **Q. Do you have any other comments at this time regarding the issues raised by**  
11 **Messrs. Loy and Lanier?**

12 A. Yes, the following is a quick summary of conclusive facts that are relevant to the  
13 Commission's understanding of why it should reject the Intervenor's request that  
14 DIUC impute CIAC in calculating rate base or, as an alternative, adjust utility plant  
15 as not used and useful. The facts are:

- 16 • In the 2004 rate case ORS established that the balance sheets accurately  
17 reflected the books and records.
- 18 • The Commission-approved application for the purchase of HPUC by CK  
19 Materials, included the balance sheet and cost of utility plant, and the  
20 approval was agreed to in a settlement signed by Attorney John F. Beach  
21 on behalf of the Intervenor, Haig Point Club and Community Association,  
22 Inc.

- 1           • The 2011 DIUC rate application and related settlement did not include  
2           adjustments for additional CIAC.
- 3           • The Commission-approved 2012 financing with SunTrust Bank relied on  
4           the balance sheets as previously presented to the Commission.
- 5           • ORS's testimony and exhibits in this case do not agree with the Intervenor's  
6           position regarding the imputation of CIAC or adjustments to utility plant  
7           for non-used and useful assets.
- 8           • There is no evidence that the lot purchasers paid for anything other than the  
9           value of the real estate, and other than minor tap in fees no connection fees  
10          to fund utility plant assets.

11  
12   **Q.    Do you have any other comments regarding Intervenor's witnesses?**

13   A.    Yes, I want to make two clarifying points for the benefit of the Commission.   First,  
14          I want to reiterate that the debt service coverage under the SunTrust loan agreement  
15          is 1.2 times debt service, a test that could not be met with the original rate approval  
16          be the Commission.   Second, the comparisons shown on Exhibit LNLR-7 are not  
17          valid because they do not make the necessary adjustments for the significant  
18          differences between an investor-owned utility such as DIUC and municipal  
19          utilities; as such, they are not relevant to the Commission's analysis in this case.

20  
21   **Q.    Does that conclude your testimony at this time?**

22   A.    Yes.